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c.c.: TG, WTM, GEK, RWM, (PME)
T.M. KEARNS, R.L. SNYDER,
L. POLLAK, F.M. DULLES,
M. JOURNOT (PMI)

~~CONFIDENTIAL~~

FLASH FOR WEEK ENDING 6 AUGUST 1982

I. LEGAL

a) EEC

Following a previous request by Rembrandt Lawyers for additional time to file their brief, the deadline for filing the PM/Rembrandt briefs is now 16 August 1982. PM and REMBRANDT have sent telexes to the commission indicating that their respective present intention was not to make any change in the present structure and shareholding in RTH or RI. Subsequently Rembrandt lawyers had further discussions with the commission on 29 July for the purpose of obtaining delays, and on 30 July gave an undertaking (valid until 31 Oct. 82) to give the commission 14 days notice before putting into effect any change in their intentions. (14 days is the amount of time the commission needs to issue an interim order blocking any action that might be contemplated). PM has sent a telex on 4 August giving a similar undertaking and an additional limited undertaking confirming that its participation in the RTH board will only cover matters required by company law.

These undertakings have been given in order to further extend the filing date for the responses to the statement of objection until 3 September 1982 and to postpone the oral hearings until, no earlier than, 30 September 1982.

Oct 4

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Prof. Gutowski has prepared a revised draft of his EEC economic study. An English translation is now available. We plan to file the study with the EEC commission sometime prior to the oral hearing.

The EEC announced a new procedure for all oral hearings in response to suggestions that it is "accuser-investigator-judge". Roland Mussard of DG-4, a member of the team that reviewed our case, has been promoted to Director (same level as Ferry) and will become the Hearing Officer. He will report to Caspari and have access to Andriessen. The new procedure comes into effect on September 1.

b) Germany

- i. The joint brief of PM, Rembrandt and RI appealing the FCO decision was filed with the Kammergericht (Court of Appeals) in Berlin on 29 July 82. The English translation, after the final review, will be available next week.
- ii. The Court will probably give the FCO three months to file their reply brief.
- iii. Our lawyers (Axster, Heidenhain and Hirsch) will meet Prof. Bernhard this month to put his opinion on international law issues into final form. We plan to file it with the Court in September.
- iv. Prof. Gutowski will have his study of the German market ready in October and we plan to file it then.

c) Canada

The Attorney General of Canada has not yet filed the Government's defense to our suit contesting FIRA's jurisdiction over our case and the reviewability by FIRA of our having taken an interest in RTH. While the Government is 6 weeks beyond the legal deadline for filing the defense, we would not, as a practical matter, be able to obtain a court declaration of default.

In the Canadian Court system, the filing due dates for most court proceedings are held in suspense during the July and August vacation period. We should therefore hear from FIRA by early September.

In any event, we are seeking a declaration from the court, which is a matter for its discretion, and thus it would be best not to press the court for now.

2) BUSINESS DEVELOPMENT

a) TEI Atlanta/Dunhill

A meeting was held in London on July 27, attended by V. Brink, M. Thomson, I. Enoch for RI and EH and WIN for PM.

The meeting reviewed the latest position concerning TEI as well as the question of granting PM a license for Dunhill and RI trademarks for North and South America.

The basic idea that PM would take over TEI was reconfirmed.

A draft contract for Dunhill and other RI trademarks was served. EH indicated that PM might consider a royalty of \$ 0.50/1000 acceptable, and that PM is also prepared in principle to guarantee a minimum royalty to RI/Dunhill of \$ 860.000 p.a., indexed by the U.S. inflation rate over 5 years, then remain fixed. The matter will be studied by RI, who still need to approach Dunhill in relation to the repurchase of the distribution rights in the USA.

The latest audited financial reports for the year ended 2 April 1982 for TEI were given to PM. A meeting has been arranged in Atlanta for Monday, August 9, between representatives of PM, RI, and TEI as well as the tax advisers of the respective parties to commence discussions about the structure of the purchase deal.

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b) U.S. License Agreement

- i) Rembrandt has not yet completed the review, nor signed the US license agreement, although they have had the last draft since mid June.
- ii) The license agreement between PM and Rembrandt covering Chesterfield and L&M is equally pending. The basic terms will be similar to the US license agreement.

c) India

V. Brink advised that in its meeting of July 19, the Board of RI has decided not to go ahead with the license agreement with National Tobacco. He indicated that the overall question of granting a license in India has been suspended.

d) Joint Distribution - Germany

A meeting is scheduled in Bremen on August 6, between W. Becker of PMG and representatives of Martin Brinkmann, to undertake a preliminary review of the possibility of establishing an arm's length joint distribution company in Germany.

3. OPERATIONS

a) Contract Manufacturing

PM have sent all tobaccos and materials to Martin Brinkmann and on 30 July trial runs of PM multifilter 100's were made. The cigarettes were sent to PM Munich for lab testing. Further trials will be made in mid-August.

A draft contract has been prepared but has not yet been served on Martin Brinkmann. No firm date exist for the commencement of contract manufacture.

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b) ET

In a meeting in London on July 27, V. Brink briefed EH on RI's position concerning the patent suit submitted by RJR against RI. The summary of RI's position is as follows:

- i) RI considers itself an innocent bystander in the fight between Reynolds and Airco.
- ii) RI does not wish to spend too much time or money on defending the suit. It is immaterial to RI who owns the patent as the royalty payments are similar.
- iii) Provided certain conditions are met by Airco, RI is prepared to defend the case vigorously in common interest by Airco and PM.
- iv) In particular RI recognized that the present contract it has with Airco is weak on the question of indemnities and wishes to strengthen its position.
- v) In the absence of any agreement with Airco to accomodate RI's demands, RI might even seek a settlement of the case directly with RJR.

While the above may only be posturing, it is to the interest of all concerned that a united front is presented against RJR. To date, Airco have offered to share in RI's legal costs, and to indemnify RI up to 50% of the royalty payments as of the date of the suit. RI is insisting on having a 100% indemnity guarantee from Airco.

EH explained that settling with RJR will not remove RI's problems as it will be rewarding the RJR harrassment tactic, and is also likely to result in a counter suit by Airco.

The matter is still under negotiation and PM should consider whether it wishes to attempt to influence Airco to provide RI with the requested guarantee, as in any case no payment will be made by Airco unless it is declared not to be the owner of the patent.

3) Speed-up kits

C. Bramston of RI indicated RI's readiness in principle to make up-front know-how payments and to a purchase of a certain number of kits from PM. The matter will be discussed further in September.

4. FINANCIAL

a) Quarterly Reporting

Thurs/Fri
A meeting is planned in London on August 12/13 between T. Kearns, L. Enoch (RI), and B. Jennings (Coopers & Lybrand), to review accounting matters related to RI results.

b) The following information was received concerning RI:

- Vol.*
- 1) June unit volume - 4.4% down on June 1981
 - 2) April - June volume 4.6% down on same period 1981
 - 3) Volume of 12 months running average ending June 1982 - 5.3% down on prior period.
 - 4) Volume forecast for 12 months ending 31-3-83 - 1.1% up on prior year actual
 - Profit* 5) Net profits - April-May 1982 pounds 10.942 million
 - 6) Latest forecast for 12 months ending 31-3-83 pounds 67.581 million (35% up on this year)
- c) Rothmans of Pall Mall Canada Ltd. have reported first quarter results of \$ 10 mio., a 90% increase from \$ 5.2 mio. last year. Higher cigarette sales and price increases were partly responsible for better results this year. The first quarter last year was affected by strikes at two plants.

5. GENERAL

a) Rembrandt - South Africa

Rembrandt is continuing its substantial legal action in South Africa as part of the dispute with Sanlam over the running of Federale Mynbou (Fedmyn) and Gencor. To date, Rembrandt has been successful in blocking the change in the membership structure of the Gencor Board by winning law suits both against Fedmyn and Gencor. The matter continues to attract substantial press attention in South Africa and outside. Further litigation is expected.

- b) As agreed with Frank Resnik, Messrs. H.P. Ackerman (Chief Engineer of Martin Brinkmann) and D. Seelmann-Eggebert (Operation Director of M.B.) will visit the PM factory in Richmond.

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c) Share Prices

<u>Closing Prices of</u>	<u>July 23</u>	<u>July 30</u>
Rothmans International (Pounds)	95	87
RI Convertible Pounds/DM Bonds (DM)	3315	3247
Dunhill (Pounds)	272	277
Carrolls (Irish Pounds)	56	56
Tabacofina (BF)		
- Spot	2520	2505
Rothmans Of Pall Mall Canada (Can Dlsr.)		
- Common	24 1/4	NA
- Preferred B	—	NA
Carling O'Keefe (Can Dlsr.)		
- Common	7 5/8	7 3/8
- Preferred A	16 3/4	NA
Rothmans Of Pall Mall Australia (Aus Dlsr.)		
- Sydney	5.30.	5.04 ✓
- Melbourne	5.30	5.10
Rothmans Industries, N.Z. (NZ Dlsr.)	1.55	1.56
Rothmans of Pall Mall Malaysia (Mal.Dlsr.)	2.86	2.80
Rothmans Industries Ltd. (Sing Dlsr)	1.44	1.36

P.S.

We just heard the Commission has accepted PM's commitments and agreed to extend the submission date of the brief to September 3, and the Oral Hearing will be held on October 4.

Best regards,